



Public Policies

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Overall workers comp rates turn upward after 7 years of reductions

Claims figures, however, do not yet support a long-term trend to higher rates

After more than seven steady years of decline, overall workers compensation rates rose up to 3.7 percent through mid-2001.

The number of workers comp carriers reducing and increasing rates through July actually is equal, but the far larger size of the increases pushed up the overall average.

During 2001's first seven months, 109 insurers filed rate reductions averaging 1.8 percent with MDI, but an identical 109 companies served notice that they had raised rates an average of up to 9.2 percent.

Overall rates in Missouri are still 20 percent below the levels prevailing when the state deregulated workers comp rates in January 1994. At its peak in 2000, these rate cuts were saving Missouri businesses a projected \$180 million a year.

Overall, 290 of 322 workers comp carriers in Missouri are charging rates below the January 1994 level.

"For some time, the department has forecast that the many years of aggressive rate cutting eventually would end, and that time appears to have come," said Director Scott B. Lakin, who took the helm of the agency in March.

Department officials noted, though, that it remains unclear whether the upturn in rates represents a long-term trend. Data from the Missouri Department of Labor and Industrial Relations, which handles worker claims, does not show significant increases in

injuries, claims filed and medical costs.

Lakin announced several steps the department

has taken to help business owners compare costs for workers comp coverage, including new Internet rate comparisons and a toll-free number for assisting business owners.

"At this time, it is imperative that business owners shop around for this coverage, and the department makes available several tools to do just that at no charge," Lakin said.

Projected losses or benefit payments rise faster than premiums in 2000

While the end of the seven-year rate-cutting trend was inevitable, MDI offered several reasons that help explain why the overall market began posting rate increases since last September:

- Losses or benefits as a percentage of premiums paid — known as the "loss ratio" — rose to 84.5 percent in 2000, up from levels of 50 percent or less in the late 1990s. When loss ratios rise above 75 percent, rate increases are almost certain. Loss-ratio increases can occur when companies expect to pay larger benefits, charge lower premiums

(See *Workers comp rates*, p. 2)

MDI Internet service identifies lowest comp rates

Agency also opens toll-free phone line — 1-800-394-0964 — to help business owners with potential premium problems

The Missouri Department of Insurance has opened a new Internet service that allows business owners to check basic workers compensation rates available statewide for any type of employee.

MDI also announced it will operate a toll-free telephone line to help business owners check their renewal premiums and shop for lower rates.

Scott B. Lakin, the MDI director, said the new Internet-based rate guide will improve substantially the information available to businesses, compared to a telephone service that opened in 1995 and became toll-free two years later.

"In using the Internet service, owners will need to provide less information about their businesses, and they are able to look at all insurers in the market, rather than just the lowest 30 rates. They can get a much better feel for the total insurance savings possible for the mix of workers they employ," Lakin said.

The MDI Electronic Workers Compensation Rate Hotline is available through the agency's Internet home page — www.insurance.state.mo.us — at no charge. MDI will continue offering its telephone service at 1-888-200-1697. To use either service, owners need the job classification codes for their employees, which may be shown on the renewal notice.

(See *MDI Internet*, p. 3)

Workers comp rates

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or a combination of the two.

Companies in 2000 reported that they had paid benefits — or expected to pay benefits on injuries suffered last year — of \$491.7 million, or an increase of 27 percent from 1999. On the other hand, those insurers earned premiums of \$581.9 million, up only 6 percent from the previous year.

Lakin noted, however, that these figures are heavily affected by company reserving practices. If insurers overreserve — a possible reaction to poor workers comp conditions elsewhere like California — the loss ratios will overstate actual losses that the companies eventually will pay for injuries.

In the early 1990s, insurers responded slowly to improvements in the loss picture, and they later had to write off much of those projected losses.

• Insurers nationwide had been using high rates of return from the stock market to subsidize insurance operations or generate premium for investments, but dwindling investment income and appreciation since March 2000 have prompted

those insurers to raise rates.

• Insurers, particularly in commercial lines like workers comp, are emphasizing profitability — higher rates — over increased market share and competitive pricing, unlike in the mid- to late-1990s.

Last fall, both MDI and an industry group recommended that insurers make small reductions in rates for 2001 — 2.5 percent by MDI and 0.5 percent by the National Council on Compensation Insurance, the industry group allowed by state law to make rate advisories.

MDI and NCCI at that time decreased the original rate reductions forecast by the standard actuarial formula to take into account what were already obvious signs of change in the market.



NOTE: Actual 2001 rate increases average less than 3.7 percent, but MDI cannot pinpoint an exact figure until Missouri Employers Mutual Insurance Co. data is recalculated. MEM is the only insurer in Missouri with more than one set of base rates, and the calculation formula must undergo changes to accurately reflect the impact of its December 2000 partial rate increase.

Missouri workers compensation rate history

Year	Companies reducing rates for those companies (unweighted)	Average reduction total Missouri market (weighted)	Overall change,
1995	130	7.6%	(6.7%)
1996	159	9.5%	(4.1%)
1997	240	13.0%	(9.6%)
1998	212	15.3%	(9.8%)
1999	181	9.4%	(3.3%)
2000	164	7.2%	(2.5%)
2001	109	1.8%	+3.7%

Missouri workers compensation loss/benefit history

Year	Earned premium (millions)	Incurred losses (millions)	Loss ratio
1991	\$658.8	\$605.4 (record high)	92.0%
1992	\$743.6 (record high)	\$587.4	79.1%
1993	\$726.9	\$473.7	65.5%
1994	\$633.3	\$388.1	61.2%
1995	\$636.8	\$370.6	58.6%
1996	\$588.7	\$269.5	47.3%
1997	\$537.9	\$315.5	58.7%
1998	\$570.6	\$334.8	58.6%
1999	\$548.0	\$387.6	70.8%
2000	\$581.9	\$491.7	84.5%

MDI Internet

(continued from page 1)

MDI toll-free service now available for business owners

Lakin also announced that MDI has installed a toll-free telephone number — 1-800-394-0964 — that will allow state workers compensation specialists to assist business owners and managers with coverage and premium problems.

One potential difficulty concerns so-called "schedule credits" that insurers deducted from premiums during the highly competitive mid- to late-1990s.

After Missouri workers comp was deregulated in 1994, insurers were allowed to adopt a rating system that was used to grant discounts or credits of more than 50 percent. These credits were supposed to account for safety improvements and other risk factors that were not yet reflected in the policyholder's claims history.

MDI acted to limit these credits when insurers began using them to cut rates mainly for marketing purposes unrelated to risk; states that did not do so, like California, have experienced highly volatile pricing and insurer insolvencies. The maximum Missouri credit now is 25 percent of the premium.

But with the rate upturn in the workers comp market, anecdotal evidence indicates some insurers are dropping credits previously granted even though business owners are maintaining their safety and other efforts.

"As long as business owners continue their safety programs and the insurer's schedule rating plan allows such credits, the carriers cannot simply drop the credits to increase premiums," Lakin said. "General rate increases should occur through the basic rate, not the loss of properly earned credits."

MDI is preparing an advisory to insurers about the legal requirement to follow their schedule rating plans and honor proper credits.

General tips for managing workers compensation costs

MDI also made available a checklist for businesses that are trying to control workers comp costs:

- Make sure employees are listed correctly. A huge difference in insurance costs can exist, for example, between a clerical worker and heavy-equipment operator. The insured payroll should accurately reflect job classifications to keep costs accurate and to a minimum.

- Check the business' legally required coverage. Generally, businesses with five or more employees and construction contractors with one worker must carry coverage. State law has exemptions for family members, farm laborers, domestic servants and some trucking owner-operators that can save businesses substantial amounts.

- Shop around. Every three years or so — or whenever a large rate increase appears on a renewal notice — owners should check with at least three insurers to see if a competitor offers more affordable coverage. An independent agent usually has access to several insurers for rate comparisons.

- Keep in mind the possibility of self-insurance or the Missouri Employers Mutual Insurance Co., which was created under state law particularly to provide affordable coverage for smaller businesses; Missouri Employers Mutual is now

the state's largest workers comp insurer.

- Make the investment necessary in workplace safety to avoid accidents, improve claims histories and lower costs. Modify operating procedures that unnecessarily expose workers to injury.

- Use a managed-care organization that has an established relationship with your insurer to save on medical treatment costs.

- Establish a modified-duty program for workers returning from an injury convalescence to cut overall claims against the workers comp policy.

- Pay all medical-only claims of \$500 or less directly to avoid claims that will affect the company's insurance history and costs. (State laws require the reporting of all claims, however, to the Missouri Division of Workers Compensation.)

- Ask the insurer for loss runs and keep abreast of the carrier's handling of all open claims. Make sure the carrier acts to protect the business' long-term interests.



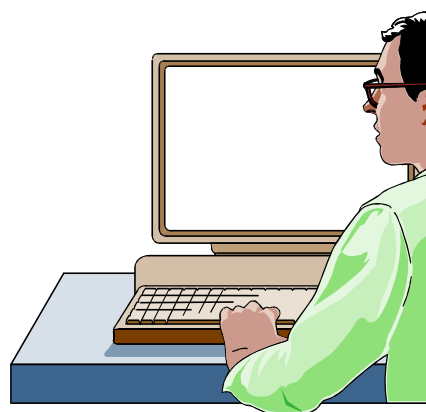
Kirk Schmidt heads MDI financial regulation

Kirk W. Schmidt, CPA, CFE, joined the MDI as director of the Division of Financial Regulation and chief financial examiner. Schmidt has been the senior financial examiner/auditor for the Mississippi Insurance Department since September 1996.

In his new job, Schmidt oversees the solvency of almost 300 domestic Missouri insurers and directs the agency's examination, financial analysis, taxation and surplus lines programs. His division also evaluates proposed mergers and acquisitions of Missouri-based firms.

Schmidt previously worked for the MDI from 1994 to 1996 as an examiner/auditor -in-charge.

Schmidt received a degree in finance with a minor in accounting in December 1987 from Illinois State University and his master's in finance in May 1992 from the University of Illinois. ❖





MDI Regulatory Actions

May, June & July 2001

Legal Action - Agents, Agencies and Brokers

Kent R. Gardner, Chesterfield, MO, license revoked.

David K. Jeffers, Florissant, MO, license revoked.

Shannon L. Murdock, La Plata, MO, license denied for failure to respond and demonstrating lack of fitness and trustworthiness.

Shawanda R. Springfield, Kansas City, KS, license denied for demonstrating lack of fitness or trustworthiness and failure to make required disclosure on license application.

William Yancey, Leneta, KS, license denied for demonstrating lack of fitness and trustworthiness and forgery.

Hogan Land Title Co., Springfield, MO, \$650 forfeiture for failure to respond.

Legend Land Services Inc., Lake Ozark, MO, \$2,300 forfeiture for late or incomplete response.

The following forfeited \$100 each for failure to respond:

Joseph O. Aydt, St. Charles, MO.

Aetna Life Insurance Co., Hartford, CT.

AIU Insurance Co., New York, NY.

American Family Life Assurance Co. of GA., Columbus, GA.

American National Property & Casualty Co., Springfield, MO.

CGU Insurance Co., Des Moines, IA.

CIGNA Healthcare, Hartford, CT.

Connecticut General Life Insurance Co., Hartford, CT.

Coventry Health Care, Kansas City, MO.

Cox Health Plan, Springfield, MO.

Fidelity & Guaranty Life Insurance Co., Greenville, SC.

Gulf Insurance Co., Dallas, TX.

Hartford Accident & Indemnity Co., Hartford, CT.

Hartford Insurance Co., Hartford, CT.

HealthyAlliance Life Insurance Co., St. Louis, MO.

Humana Health Care Plans, Kansas City, MO.

Interstate Insurance Group, Chicago, IL.

Kaiser Permanente Insurance Co., Overland Park, KS.

Pennsylvania Life Insurance Co., Orlando, FL.

Pittman & Assoc., Inc., Memphis, TN.

Prudential Health Care Plan, Middletown, CT.

SAFECO Insurance Co., Sunset Hills, MO.

Stewart Title of Kansas City, Kansas City, MO.

TICO Insurance Co., Dallas, TX.

Traders Insurance Co., Kansas City, MO - three violations.

Traders Insurance Co., Lansing, MI.

Travelers Property Casualty Insurance Co., Hartford, CT.

Union Labor Life Insurance Co., Washington, DC.

United Services Automobile Association, San Antonio, TX.

Variable Annuity Life Insurance Co., Houston, TX.

Windsor Insurance Co., Atlanta, GA.

Financial Exams

Berkley Regional Insurance Co., Scottsdale, AZ.

Farmers & Laborers Coop Insurance Association of Audrain County, Mexico, MO.

Farmers Mutual Fire Insurance Co. of Callaway County, Fulton, MO.

Farmers Mutual Fire Insurance Co. of DeKalb County, Maysville, MO.

Farmers Mutual Fire Insurance Co. of Harrison County, Bethany, MO.

Farmers Mutual Fire Insurance Co. of Shelby County, Shelbyville, MO.

Farmers Mutual Fire Insurance Co. of Worth County, Grant City, MO.

Farmers Mutual Insurance Co. of Gentry County, Albany, MO.

General American Life Insurance Co., St. Louis, MO.

Greater Missouri Educational Trust, St. Louis, MO.

Paragon Life Insurance Co., St. Louis, MO.

Perry County Mutual Insurance Co., Perryville, MO.

Pike County Mutual Insurance Co., Bowling Green, MO.

Schuyler County Mutual Insurance Co., Queen City, MO.

St. Louis Area Trust, St. Louis, MO.

The Bar Plan Title Insurance Co., St. Louis, MO.

The Bar Plan Surety and Fidelity Insurance Co., St. Louis, MO.

The Bar Plan Mutual Insurance Co., St. Louis, MO.

(See Regulatory Actions, p. 5)

Regulatory Actions

(continued from p. 4)

Company Changes

Accredited Surety and Casualty Co., Inc., Orlando, FL, added liability authority.

The Accident Fund Co., Lansing, MI, was admitted with liability authority.

ALTC Risk Purchasing Group, Birmingham, AL, was registered as a purchasing group.

Alliance of Nonprofits for Insurance Risk Retention Group, Barre, VT, registered as a risk retention group.

American Central Insurance Co., St. Louis, MO, was acquired by **White Mountains Insurance Group, Ltd.**, **White Mountains Holdings (Barbados), SRL**, **WM Asset Management (Barbados) Ltd.**, **WM Bridgetown (Barbados) Ltd.**, **WM Enterprises (Barbados) Ltd.**, **TACK Holding Corp.** and **TACK Acquisition Corp.**

Allmerica Financial Benefit Insurance Co., Howell, MI, redomesticated from Pennsylvania to Michigan.

American Family Life Insurance Co., Madison, WI, added variable contracts.

American Fire & Indemnity Co., Cedar Rapids, IA, changed its name to **United Fire & Indemnity Co.**

American International Group, Inc., and **Washington Acquisition Corp.** acquired **AGC Life Insurance Co.**

American Merchants Life Insurance Co., Southfield, MI, merged with **Reassure America Life Insurance Co.**

American Network Insurance Co., Allentown, PA, certificate of authority suspended.

American Sterling Insurance Services Inc., Irvine, CA, was admitted as a TPA.

AmGUARD Insurance Co., Wilkes-Barre, PA, was admitted with liability authority.

Amwest Surety Insurance Co., Calabasas, CA, certificate of authority suspended.

ARAG Insurance Group, Des Moines, IA, was admitted with liability authority.

Ardiel Insurance Services Inc., Carmel, IN, withdrew as a TPA.

ASU International Inc., Woburn, MA, was admitted as a TPA.

Atlantic Risk Services Inc., New York, NY, was admitted as a TPA.

AXA Nordstern Art Insurance Corp., New York, NY, changed its name to **AXA Art Insurance Corp.**

Barton County Mutual Insurance Co., Liberal, MO, changed its name to **Barton Mutual Insurance Co.**

BCS Insurance Co., Chicago, IL, added property authority.

Berkshire Life Insurance Co., New York, NY, merged with **Guardian Life Insurance of America.**

The Century American Insurance Co., Madison, WI, withdrew as a surplus lines company.

Christian Mutual Insurance Co., Houston, TX, merged with **Investors Consolidated Insurance Co.**

Chrysler Insurance Co., Southfield, MI, changed its name to **DaimlerChrysler Insurance Co.**

Credit General Insurance Co., Ohio, certificate of authority suspended.

Delta Life and Annuity Co., Topeka, KS, redomesticated from Iowa to Kansas.

East GUARD Insurance Co., Wilkes-Barre, PA, was licensed with liability authority.

Empire Health Plans Assurance Inc., New York, NY, changed its name to **WellChoice Insurance of New Jersey, Inc.**

Employers Security Insurance Co., Indianapolis, IN, was admitted with liability and fidelity authority.

Farmers Mutual Insurance Co. of Amazonia, Amazonia, MO, withdrew as extended Missouri mutual.

Federal Home Life Insurance Co., Richmond, VA, redomesticated from Indiana to Virginia.

First America Insurance Co., Kansas City, MO, was acquired by **Arch Capital Group Ltd.**

Florida Physicians Insurance Co., Jacksonville, FL, changed its name to **First Professionals Insurance Co. Inc.**

Fremont Casualty Insurance Co., Glendale, CA, merged with **Fremont Indemnity Co.**

Global International Insurance Co. Inc., Honolulu, Hawaii, was registered as a risk retention group.

Grange Guardian Insurance Co., Columbus, OH, changed its name to **Grange Indemnity Insurance Co.**

GuideOne America Insurance Co., West Des Moines, IA, added accident and health authority.

Gulf Insurance Co. UK LTD, Hazelwood, MO, added fidelity and surety authority.

Harrington Benefit Services Inc., Brooklyn Center, MN, was admitted as a TPA.

Healthsource Insurance, New York, NY, changed its name to **Berkshire Life Insurance Co. of America.**

HIH America Compensation & Liability Insurance Co., Burlingame, CA, certificate of authority suspended.

HIH America Compensation & Liability Insurance Co., San Francisco, CA, certificate of authority suspended.

Indianapolis Life Insurance Co., Indianapolis, IN, converted from a mutual insurance company to a stock insurance company.

Industrial Insurance Co. LTD, New York, NY, changed its name to **Sampo Industrial Insurance Co. LTD.**

Kentucky Insurance Co., Louisville, KY, changed its name to **Citizens Insurance Co.**

Lake States Insurance Co., Minnetonka, MN, changed its name to **Harleysville Lake States Insurance Co.**

The London Assurance of America, Charlotte, NC, changed its name to **XL Capital Assurance Inc.** and added fidelity and surety authority.

Manufacturers Alliance Insurance Co., Blue Bell, PA, was admitted with property, liability, fidelity and surety authority.

MedAmerica Mutual Risk Retention Group Inc., Honolulu, HI, was registered as a risk retention group.

Meridian Citizens Mutual Insurance Co., Indianapolis, IN, redomesticated from Minnesota to Indiana.

Meridian Citizens Security Insurance Co., Indianapolis, IN, redomesticated from Minnesota to Indiana.

MGIC Indemnity Corp., Milwaukee, WI, was admitted with miscellaneous authority.

(See Regulatory Actions, p. 6)

Regulatory Actions

(continued from p. 5)

Minnesota Fire and Casualty Co., Minnetonka, MN, changed its name to **Harleysville Insurance Co.**

Minnesota Lawyers Mutual Insurance Co., Minneapolis, MN, was admitted with liability authority.

MutualAid Exchange, Lititz, PA, was admitted with property and liability authority.

NAC Reinsurance Corp., Stamford, CT, changed its name to **XL Reinsurance America Inc.**

NorGUARD Insurance Co., Wilkes-Barre, PA, was licensed with liability authority.

North American Benefits Co., Wayne, PA, was licensed as a third party administrator (TPA).

The North West Life Assurance Co. of Canada, Blaine, WA, changed its name to **Industrial-Alliance Pacific Life Insurance Co.**

The Ohio Life Insurance Co., New York, NY, changed its name to **Chase Life and Annuity Co.**

Omni Insurance Co., Atlanta, GA, added accident and health authority.

Owensville Mutual Insurance Co. Inc., Liberal, MO, changed its name to **Gateway Mutual Insurance Co.**

Physicians Benefits Trust Life Insurance Co., Chicago, IL, certificate of authority suspended.

Peninsular Life Insurance Co., Orlando, FL, redomesticated from North Carolina to Florida.

Penn Treaty Network America Insurance Co., Allentown, PA, certificate of authority suspended.

Pennsylvania Manufacturers Indemnity Co., Blue Bell, PA, was admitted with property, liability, fidelity and surety authority.

Phoenix Home Life Mutual Insurance Co., Enfield, CT, changed its name to **Phoenix Life Insurance Co.**

Pierce National Life Insurance Co., Woodbury, MN, merged with **Fortis Benefits Insurance Co.**

Preferred Standard Mutual Insurance Co., St. Louis, MO, added liability authority.

Psychiatrists Risk Retention Group, Philadelphia, PA, merged with **Legion Insurance Co.**

(See Regulatory Actions, p. 7)

Mike Duffeck is named Employee of the Quarter



Mike Duffeck
Licensing Supervisor

Mike Duffeck, licensing section supervisor, has reached several goals in his short time with the department. Duffeck began with the department in January 2001 as a consumer services specialist and was promoted to licensing section manager in July 2000. Duffeck reduced the license processing log of six weeks as of June 2000 to one to three days. He also has reduced the staff turnover.

In his current position, Duffeck is responsible for directing and coordinating insurance licensing services and programs for the department. He supervises licensing technicians in processing insurance licensing applications and renewals as well as approval of prelicensing and continuing education providers.

Duffeck reviews licensing programs to ensure compliance with laws, regulations, policies and procedures and represents the department at speaking engagements related to licensing issues.

Duffeck supervises 21 licensing technicians and support staff. He says the most challenging part of his position is making sure each employee receives individual attention and recognition. "I enjoy working with the staff as a team in accomplishing our objectives and observing the success of staff in operating as self-directed teams without need of close supervision."

Before starting with the department, Duffeck taught junior high school English for three years and worked for Shelter Insurance Co. for 15 years. He is married and has two children. His wife, Martha, works as a psychologist for Harry Truman Veteran's Hospital in Columbia. His sons, Daniel, 10, and David, 8, keep him busy with sporting activities. He also enjoys reading novels and, history and playing golf. ❖



Gov. Bob Holden presented the 2001 Governor's Award for Quality and Productivity to Mike Duffeck and his licensing staff on July 26 in the Capitol Rotunda. MDI Director Scott B. Lakin recounted the group's success in trimming an unacceptable backlog of agent licensing applications to virtually immediate turnaround.

Regulatory Actions

(continued from p. 6)

Reliance National Indemnity Co., Philadelphia, PA, merged with *Reliance Insurance Co.*

Rockford Mutual Insurance Co., Rockford, IL, added miscellaneous authority.

Security First Life Insurance Co., Los Angeles, CA, changed its name to *Metlife Investors USA Insurance Co.*

Swiss Re Life & Health, Stamford, CT, merged with *Life Reassurance Corp. of America*.

Traders Insurance Co., Kansas City, MO, added accident and health authority.

United Independent Life Insurance Co. a/k/a *Physicians Benefits Trust Life Insurance Co.*, Chicago, IL, certificate of authority suspended.

United National Insurance Co., Bala Cynwyd, PA, was approved as an accredited reinsurer in the state of Missouri

United Pacific Insurance Co., Philadelphia, PA, merged with *Reliance Insurance Co.*

USF Re Insurance Co., New York, NY, changed its name to *AXA Re America Insurance Co.*

Viking Insurance Co. of Wisconsin, Charlotte, NC, redomesticated from Wisconsin to Colorado.

Vulcan Insurance Co., Carmel, IN, merged with *Conseco Annuity Assurance Co.*

Waterford Insurance Co., Columbus, OH, changed its name to *Nationwide Affinity Insurance Co. of America*.



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If you have comments or questions, please send them to Melissa Becker, associate editor, P.O. Box 690, Jefferson City, MO 65102-0690 or call 573-526-2946.

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Aleecia Kreasky, clerk typist II, Division of Financial Regulation
Kirk Schmidt, director, Division of Financial Regulation
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